

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK**

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ANTHONY CAPONE, Individually and On Behalf  
of All Others Similarly Situated,

Plaintiff,

vs.

R&G FINANCIAL CORPORATION, VÍCTOR J.  
GALÁN, and JOSEPH R. SANDOVAL,

Defendants.

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) **CIVIL ACTION NO.**  
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) **CLASS ACTION COMPLAINT**  
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) **JURY TRIAL DEMANDED**  
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Plaintiff, Anthony Capone (“Plaintiff”), individually and on behalf of all other persons similarly situated, by his undersigned attorneys, for his complaint against defendants, alleges the following based upon personal knowledge as to himself and his own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through his attorneys, which included, among other things, a review of the defendants’ public documents, conference calls and announcements made by defendants, United States Securities and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding R&G Financial Corporation (“R&G Financial” or the “Company”) securities analysts’ reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

### **NATURE OF THE ACTION**

1. This is a federal class action on behalf of purchasers of the publicly traded securities of R&G Financial between April 21, 2003 and April 25, 2005 (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”).

### **JURISDICTION AND VENUE**

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act, (15 U.S.C. §§ 78j(b) and 78t(a)), and Rule 10b-5 promulgated thereunder (17 C.F.R. §240.10b-5).

3. This Court has jurisdiction over the subject matter of this action pursuant to §27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. § 1331.

4. Venue is proper in this Judicial District pursuant to §27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this Judicial District. Moreover, the Company maintains several mortgage offices in this District.

5. In connection with the acts, conduct and other wrongs alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications and the facilities of the national securities exchange.

### **PARTIES**

6. Plaintiff, Anthony Capone, as set forth in the accompanying certification, incorporated by reference herein, purchased R&G Financial securities at artificially inflated prices during the Class Period and has been damaged thereby.

7. Defendant R&G Financial is a Puerto Rico corporation that maintains its principal executive offices at 280 Jesus T. Pinero Avenue, Hato Rey, San Juan, PR 00918.

8. Defendant Víctor J. Galán (“Galán”) was, at all relevant times, the Company’s Chairman of the Board and Chief Executive Officer.

9. Defendant Joseph R. Sandoval (“Sandoval”) was, at all relevant times, the Company’s Executive Vice President and Chief Financial Officer.

10. Defendants Galán and Sandoval are collectively referred to hereinafter as the “Individual Defendants.” The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of R&G Financial’s quarterly reports, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, i.e., the market. Each defendant was provided with copies of the Company’s reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available to them but not to the public, each of these defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations which were being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein, as those statements were each “group-published” information, the result of the collective actions of the Individual Defendants.

**PLAINTIFF'S CLASS ACTION ALLEGATIONS**

11. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired the securities of R&G Financial between April 21, 2003 and April 25, 2005, inclusive (the "Class Period") and who were damaged thereby. Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

12. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, R&G Financial's securities were actively traded on the New York Stock Exchange ("NYSE"). While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by R&G Financial or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

13. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

14. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

15. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by defendants' acts as alleged herein;

(b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of R&G Financial; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

16. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

### **SUBSTANTIVE ALLEGATIONS**

#### **Background**

17. R&G Financial is a Puerto Rico-chartered, financial holding company that operates R-G Premier Bank of Puerto Rico (Premier Bank) a Puerto Rico commercial bank, and R-G Crown Bank (Crown Bank), a Florida domiciled federal savings bank. The Company also operates R&G Mortgage Corp (R&G Mortgage) in Puerto Rico, The Mortgage Store of Puerto Rico, Inc. (Mortgage Store), a subsidiary of R&G Mortgage and Continental Capital Corp. (Continental), a

mortgage-banking subsidiary of Crown Bank, which does business in the continental United States. The Company also conducts an insurance agency business and offers broker dealer services in Puerto Rico through Home & Property Insurance Corp. and R-G Investments Corporation, respectively.

**Materially False And Misleading  
Statements Issued During The Class Period**

18. The Class Period starts on April 21, 2003. At that time, R&G Financial issued a press release with the headline "R&G Financial Reports 35% Increase in Earnings for The Quarter Ended March 31, 2003." Therein, the Company stated:

R&G Financial Corporation (NYSE: RGF) ("the Company"), the financial holding company of R-G Premier Bank, Crown Bank, FSB, and R&G Mortgage Corp., today reported record financial results for the quarter ended March 31, 2003. Net income for the first quarter of 2003 amounted to \$29.1 million, compared to net income of \$21.5 million for the first quarter of 2002, an increase of 35%. For the first quarter of 2003, consolidated earnings per diluted share were \$0.74, compared to \$0.58 per diluted share for the first quarter of 2002, an increase of 28%. The Company's ROA and ROE improved during the quarter ended March 31, 2003 to 1.77% and 21.94%, respectively, from 1.74% and 21.19%, respectively, during the quarter ended December 31, 2002.

These strong earning results were achieved notwithstanding impairment charges and unscheduled amortization of \$10.8 million during the first quarter of 2003 on the Company's servicing asset, related to additional increases in mortgage prepayment rates during the period as a result of lower interest rates available for mortgage loans. The resulting decrease in earnings were more than offset by increases in gain on sale and fees from mortgage loans, which were attributable to record volumes of mortgage loan originations and sales. Total loan production during the first quarter of 2003 was \$1.0 billion, of which more than 90% was internally generated. Total loan production was the highest amount for any given quarter in the Company's history, representing a 76% increase compared to the same quarter a year ago.

During the quarter ended March 31, 2003, the Company's net interest income rose to \$42.2 million, compared to \$32.0 million in the 2002 comparative quarter, an increase of 32%, as a result of a record volume of earning assets. Included in earning assets of the Company at March 31, 2003 were the assets of Crown Bank, the Company's Florida-based banking subsidiary acquired during the second quarter of 2002.

Net gain on origination and sale of loans increased 86% to \$33.0 million during the quarter ended March 31, 2003 from \$17.7 million for the comparable 2002 period, due to the increased volume of mortgage loan originations and sales as well as higher margins in the sale of loans. This expanded level of loan originations reflects not only the increase in loan production volume due to lower rates for mortgage loans during the period, but also the increased number of mortgage offices of the Company and R&G Financial's added strength in the market for new residential mortgage loans. The Company has obtained a higher share of end loans as a result of R&G's continued growth in residential construction lending, which remains very strong both in Puerto Rico and Central Florida as high demand for housing continues in those markets. Loan originations in the Company's division for new housing during the first quarter of 2003 represented a new record for R&G Financial.

Other fee income for the first quarter of 2003 was \$5.7 million, representing a 48% increase over the comparative period in 2002. The increase reflects added contributions made by the Company's insurance agency and its broker-dealer subsidiary.

Mr. Victor J. Galan, Chairman and Chief Executive Officer of the Company, commented on the first quarter results as follows:

"We are very pleased to report these excellent results during the quarter ended March 31, 2003. The increase in earnings in the first quarter of 2003 comes after last year's stellar performance in which we increased profits by 45% to a new record level. More remarkable is the fact that during the first quarter of 2003 R&G Financial established a new record for loan production, surpassing \$1 billion for the first time in any given quarter. We achieved equally positive results with our loan portfolio, retail deposits and banking assets; total loans and deposits each reached a record \$3.0 billion at quarter end, while banking assets surpassed \$6.1 billion.

Once again, we demonstrate the complimentary nature among our product lines, as reflected by continued strength experienced across all of the Company's segments during the quarter resulting in record assets, loans and deposits. All these accomplishments position R&G very well for continued growth, and we remain optimistic about our future performance. This is now the 13th quarter in a row that we have achieved uninterrupted consecutive increases in earnings to record levels, and we will use our best efforts to continue to do so in the future. We look forward to adding value and improving returns for our stockholders."

19. On May 15, 2003, R&G Financial filed its quarterly report with the SEC on Form 10-Q. The Company's Form 10-Q was signed by the Individual Defendants and reaffirmed the Company's previously announced financial results. Additionally, the defendants represented the following:

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. However, in the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (principally consisting of normal recurring accruals) necessary for a fair presentation of the Company's financial condition as of March 31, 2003 and the results of operations and changes in its cash flows for the three months ended March 31, 2003 and 2002.

20. On July 16, 2003, R&G Financial issued a press release with the headline "R&G Financial Reports Record Earnings for Second Quarter and Six Months Ended June 30, 2003." Therein, the Company stated:

R&G Financial Corporation ("the Company") (NYSE: RGF), the financial holding company of R-G Premier Bank, one of the fastest growing commercial banks in Puerto Rico, R-G Crown Bank, its federal savings bank with branches in the Orlando and Tampa/St. Petersburg Florida markets, and R&G Mortgage Corp, the second largest residential mortgage loan originator and servicer in Puerto Rico, today reported record earnings for the second quarter and first half of 2003.



For the first six months of 2003, net income amounted to \$60.6 million, compared to \$44.2 million 2002, an improvement of 37%. For the second quarter of 2003, net income amounted to \$31.4 million compared to \$22.6 million for the second quarter of 2002, an increase of 39%. For the six months of 2003, consolidated earnings per diluted share were \$1.54, compared to \$1.17 for 2002, an increase of 32%; for the second quarter of 2003, consolidated earnings per diluted share were \$0.80, compared to \$0.59 per diluted share for the second quarter of 2002, an increase of 36%.

These strong earning results were achieved notwithstanding impairment charges of \$27.5 million and \$16.7 million (included in operating expenses) during the first half and second quarter of 2003, respectively, on the Company's servicing asset. These charges reflect additional increases in mortgage prepayment rates during the period as a result of the continued low levels of interest rates. The resulting decrease in earnings was more than offset by increases in gain on sale and fees from mortgage loans, which were attributable to record volumes of mortgage loan originations and sales. Total loan production during the first half of 2003 was \$2.1 billion, a 61% increase over the first half in 2002; total loan production during the second quarter of 2003 was \$1.1 billion, a 49% increase. In both periods, over 90% of the total loan production was internally generated. Total loan production during the second quarter was the highest amount for any given quarter in the Company's history, surpassing the amount for the first quarter this year.

For the second quarter of 2003, gain on the origination and sale of loans increased 184% to \$44.8 million, while the Company's net interest income increased by 24% to \$44.6 million. For the first half of 2003, gain on the origination and sale of loans increased 133% to \$77.8 million, while the Company's net interest income increased by 28% to \$86.8 million.

Other fee income for the first half of 2003 was \$12.9 million, representing a 63% increase over the comparative period in 2002. The increase reflects the added contributions made by the Company's insurance agency and its broker-dealer subsidiary.

Commenting on the significant results for the second quarter and first half of 2003, Mr. Victor J. Galan, Chairman of the Board and CEO of the Company indicated:

"We are pleased to report these excellent results during the quarter ended June 30, 2003. The increase in earnings reflects another strong quarter of loan production, surpassing the \$1 billion mark for the second consecutive quarter. Our loan portfolio has grown by close to \$250 million during the first half of 2003, due to strong loan demand both in Puerto Rico and Central Florida, which position R&G very well for the future. As a result of these strong results, together with the continuing strong demand we are experiencing both in commercial and residential lending, we remain optimistic about our future performance."

21. On August 14, 2003, R&G Financial filed its quarterly report with the SEC on Form 10-Q. The Company's Form 10-Q was signed by the Individual Defendants and reaffirmed the Company's previously announced financial results. Additionally, the defendants represented the following:

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. However, in the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (principally consisting of normal recurring accruals) necessary for a fair presentation of the Company's financial condition as of June 30, 2003 and the results of operations and changes in its cash flows for the three and six months ended June 30, 2003 and 2002.

22. On October 14, 2003, R&G Financial issued a press release with the headline "R&G Financial Reports Record Earnings for Third Quarter and Nine Months Ended September 30, 2003." Therein, the Company stated:

R&G Financial Corporation (NYSE: RGF), ("the Company") the financial holding company of R-G Premier Bank, R-G Crown Bank and R&G Mortgage Corp, today reported record earnings for the third quarter and first nine months of 2003. For the first nine months of 2003, net income amounted to \$94.9 million, compared to \$69.2 million in 2002, an improvement of 37%. For the third quarter of 2003, net income amounted to \$34.3 million compared to \$25.0 million for the third quarter of 2002, an increase of 37%.

For the nine months of 2003, consolidated earnings per diluted share were \$2.43, compared to \$1.81 for 2002, an increase of 34%; for the third quarter of 2003, consolidated earnings per diluted share were \$0.89, compared to \$0.63 per diluted share for the third quarter of 2002, an increase of 41%.

The Company's return on equity during the third quarter of 2003 was 24.26%, while its return on assets was 1.82%. The efficiency ratio for the quarter was 49%.

For the third quarter of 2003, gain on the origination and sale of loans increased 24% to \$30.2 million, while the Company's net interest income increased by 16% to \$47.7 million. For the first nine months of 2003, gain on the origination and sale of loans increased 87% to \$108.0 million, while the Company's net interest income increased by 23% to \$134.5 million.

Other fee income for the first nine months of 2003 was \$20.9 million, representing a 68% increase over the comparative period in 2002. The increase reflects the added contributions made by the Company's insurance and broker-dealer subsidiaries.

The increase in earnings during the third quarter of 2003 also reflects a significant decrease in servicing-related impairment charges. Impairment charges of the Company's servicing asset were \$32.1 million and \$4.6 million (included in operating expenses) during the first nine months and third quarter of 2003, respectively, compared to \$13.7 million and \$10.7 million during the first nine months and third quarter of 2002, respectively. The lower charges during the quarter reflect lower mortgage prepayment rates as a result of a recent increase in interest rates for mortgage loans. In spite of the increase in rates during the quarter, loan production remained strong. Total loan production during the third quarter of 2003 was \$1.3 billion, a 69% increase over the same period in 2002; total loan production during the first nine months of 2003 was \$3.4 billion, a 64% increase. Total loan production during the third quarter was the highest amount for any given quarter in the Company's history, surpassing the amount for the first and second quarters this year.

Total assets of R-G Crown Bank at the end of the third quarter were \$1.1 billion; total banking assets were \$7.0 billion.

Commenting on the record results for the third quarter and first nine months of 2003, Mr. Victor J. Galan, Chairman of the Board and CEO of the Company indicated:

"We are pleased to report these excellent results during the quarter ended September 30, 2003. During the quarter, the Company achieved an exceptional quarter of loan production, reaching \$1.3 billion, the highest in the Company's history. A significant amount of these loans were added to the Company's loans portfolio, growing to about \$3.8 billion as of the end of the third quarter, or a \$1 billion increase since the beginning of the year. While a decrease in the volume of mortgage loan refinancings is expected in the future due to higher interest rates, the impact should not be substantial to the overall financial performance of the Company due to the continued strength in the Puerto Rico and Central Florida lending markets. Growth in the Company's banking and mortgage banking sectors should continue through ongoing expansion in commercial and residential lending, which leads us to remain optimistic about our future performance."

23. On November 14, 2003, R&G Financial filed its quarterly report with the SEC on Form 10-Q. The Company's Form 10-Q was signed by the Individual Defendants and reaffirmed the Company's previously announced financial results. Additionally, the defendants represented the following:

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. However, in the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (principally consisting of normal recurring accruals) necessary for a fair presentation of the Company's financial condition as of September 30, 2003 and the results of operations and changes in its cash flows for the three and nine months ended September 30, 2003 and 2002.

24. On January 20, 2004, R&G Financial issued a press release with the headline "R&G Financial Reports Record Earnings for Fourth Quarter and Year Ended December 31, 2003." Therein, the Company stated:

R&G Financial Corporation (NYSE: RGF) ("the Company"), the financial holding company of R-G Premier Bank, R-G Crown Bank and R&G Mortgage Corp., today reported record earnings for the fourth quarter and year ended December 31, 2003. For the year ended December 31, 2003, net income amounted to \$131.0 million, compared to \$96.3 million in 2002, an improvement of 36%. For the fourth quarter of 2003, net income amounted to \$36.1 million compared to \$27.1 million for the fourth quarter of 2002, an increase of 33%.

For the year ended December 31, 2003, consolidated earnings per diluted share were \$3.37, compared to \$2.49 for 2002, an increase of 35%; for the fourth quarter of 2003, consolidated earnings per diluted share were \$0.94, compared to \$0.68 per diluted share for the fourth quarter of 2002, an increase of 38%.

The Company's return on equity during the fourth quarter of 2003 was 24.52%, while its return on assets was 1.80%.

For the fourth quarter of 2003, gain on the origination and sale of loans increased 41% to \$38.9 million, while the Company's net interest income increased by 22% to \$53.4 million. For the year ended December 31, 2003, gain on the origination and sale of loans increased 72% to \$146.9 million, while the Company's net interest income increased by 23% to \$188.0 million.

The increase in earnings during the fourth quarter of 2003 also reflects a significant decrease in servicing-related impairment charges. Impairment charges (included in operating expenses) of the Company's servicing asset for the fourth quarter and year ended December 31, 2003, were \$5.6 million and \$37.7 million, respectively, compared to \$7.3 million and \$21.0 million during the 2002 respective periods. The lower charges during the quarter reflect lower mortgage prepayment rates as a result of recent increases in interest rates for mortgage loans. In spite of the increase in rates during the quarter, loan production remained strong. Total loan production during the fourth quarter of 2003 was \$1.1 billion, a 23% increase over the same period in 2002; total loan production during the year ended December 31, 2003, was \$4.5 billion, a 52% increase, driven principally by the Company's ongoing expansion in commercial and residential lending in Central Florida and Puerto Rico, as well as increased refinancings during the year in its mortgage banking segment due to low interest rates.

Total assets of R-G Crown Bank at the end of the fourth quarter were \$1.3 billion, increasing 56.4% during the year. Total banking assets increased 34.6% during the year to \$7.4 billion, which represented 90.3% of the Company's consolidated assets at December 31, 2003.

Commenting on the record results for the fourth quarter and year ended December 31, 2003, Mr. Victor J. Galan, Chairman of the Board and CEO of the Company indicated: "We are very pleased to report these excellent results during the quarter and year ended December 31, 2003. During the quarter, the Company continued to successfully expand its loan portfolio, which is attributable both to general market growth coupled with the Company's ongoing penetration in residential and commercial lending in Central Florida and Puerto Rico. The loan portfolio grew to a record \$4.0 billion, or a 47% increase from the prior year-end, which positions the Company very well for its future performance. As a result, during the fourth quarter of 2003, the Company's net interest income alone grew an impressive 12% on a linked quarter basis (48% on an annual basis). We continue to believe that the impact of any decrease in the volume of mortgage loan refinancings that could occur in the future due to higher interest rates should not be significant to the overall financial performance of the Company due to the Company's ongoing expansion and the continued strength in Central Florida's lending markets and Puerto Rico's new construction sector. 2004 should be another strong year for R&G, with continued growth and greater profitability."

25. On March 15, 2004, R&G Financial filed its annual report with the SEC on Form 10-K. The Company's Form 10-K was signed by the Individual Defendants and reaffirmed the Company's previously announced financial results. Additionally, the Company's Form 10-K contained the following clean audit opinion of PricewaterhouseCoopers, LLP:

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of income, of comprehensive income, of changes in stockholders' equity, and of cash flows present fairly, in all material respects, the financial position of R&G Financial Corporation (the Company) and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These

financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

26. Additionally, the Individual Defendants certified R&G Financial's 2003 financial results pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by affirming the following:

1. I have reviewed this annual report on Form 10-K of R&G Financial Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;



(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

27. On April 19, 2004, R&G Financial issued a press release with the headline "R&G Financial Reports Record Earnings for First Quarter Ended March 31, 2004." Therein, the Company stated:

R&G Financial Corporation ("the Company") (NYSE: RGF), the financial holding company of R-G Premier Bank, R-G Crown Bank and R&G Mortgage Corp., today reported record earnings for the first quarter ended March 31, 2004. For the first quarter of 2004, net income amounted to \$38.5 million, compared to \$29.1 million for the first quarter in 2003, an increase of 32%.

For the first quarter of 2004, consolidated earnings per diluted share were \$0.67, compared to \$0.49 for the first quarter of 2003, an increase of 37%.



The Company's return on equity during the first quarter of 2004 was 24.98%, while its return on assets was 1.84%, compared to 21.94% and 1.77%, respectively, during the first quarter of 2003.

For the first quarter of 2004, the Company's net interest income increased by 32% to \$55.7 million, due to an increase in earnings assets during the period, while gain on the origination and sale of loans increased 21% to \$39.9 million.

The increase in earnings during the first quarter of 2004 also reflects a reduction in servicing related impairment charges. Impairment charges (included in operating expenses) of the Company's servicing asset for the first quarter of 2004 were \$9.3 million, compared to \$10.8 million during the first quarter of 2003. Management believes that a portion of the impairment charges recorded during the first quarter will reverse during the second quarter this year, based on the current interest rate environment and the refinancing rate for mortgage loans.

Results for the quarter ended March 31, 2004 were also adversely affected by a \$1.1 million charge to income taxes, related to the non-realization of certain tax benefits recorded in prior years for amounts expected to reverse at rates lower than the Company's statutory tax rate.

Loan production remained strong. Total loan production during the first quarter of 2004 was \$930 million, a 9% decrease compared to the same period in 2003, principally as a result of decreased refinancings from its U.S. mortgage lending division. During the first quarter of 2003, refinancings for the Company were at a record level. The Company loan production continues to be driven principally by the Company's ongoing expansion in commercial and residential lending in Central Florida and Puerto Rico, as well as refinancings during the period in its mortgage banking segment in Puerto Rico consistent with R-G Financial's historical experience.

Total assets of R-G Crown Bank at the end of the first quarter of 2004 were \$1.3 billion, contributing \$5.9 million in profits during the quarter. Total banking assets increased 23% compared to the first quarter of 2003 to \$7.5 billion, which represented 87.5% of the Company's consolidated assets at March 31, 2004.

Non-performing loans increased \$13.1 million as of March 31, 2004 compared to December 31, 2003. The increase is mostly related to an

increase in R&G Financial Corporation non-performing residential mortgage loans in the process of foreclosure. The Company's loss experience in this type of loans continues to be minimal. Notwithstanding, the Company increased its provision for loan losses during the first quarter of 2003 by \$2.25 million due to continued increases of the Company's commercial (including construction) loan portfolio.

Commenting on the record results for the first quarter of 2004, Mr. Victor J. Galan, Chairman of the Board and CEO of the Company, indicated:

"We continue to believe that the possible impact of a decrease in the volume of mortgage loan refinancings that could occur in the future due to higher interest rates should not be significant to the overall financial performance of the Company, due to the continued strength in Central Florida's lending markets and Puerto Rico's new housing sector, and the continued expansion of our banking franchise in Puerto Rico. We remain very positive about the Company's future prospects and the year 2004, which we continue to believe should be another strong year for R&G, with continued growth and greater profitability."

28. On May 10, 2004, R&G Financial filed its quarterly report with the SEC on Form 10-Q. The Company's Form 10-Q was signed by the Individual Defendants and reaffirmed the Company's previously announced financial results. Additionally, the defendants represented the following:

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. However, in the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (principally consisting of normal recurring accruals) necessary for a fair presentation of the Company's financial condition as of March 31, 2004 and the results of operations and changes in its cash flows for the three months ended March 31, 2004 and 2003.

29. On July 19, 2004, R&G Financial issued a press release with the headline "R&G Financial Reports Record Earnings for Second Quarter and Six Months Ended June 30, 2004." Therein, the Company stated:

R&G Financial Corporation (the "Company") (NYSE: RGF), the financial holding company of R-G Premier Bank, R-G Crown Bank, and R&G Mortgage Corp, today reported record earnings for the second quarter and first half of 2004.

For the first six months of 2004, net income amounted to \$79.3 million, compared to \$60.6 million in 2003, an improvement of 31%. For the second quarter of 2004, net income amounted to \$40.7 million compared to \$31.4 million for the second quarter of 2003, an increase of 30%. For the six months of 2004, consolidated earnings per diluted share were \$1.39, compared to \$1.03 for 2003, an increase of 35%; for the second quarter of 2004, consolidated earnings per diluted share were \$0.72, compared to \$0.54 per diluted share for the second quarter of 2003, an increase of 33%.

The Company's return on equity during the second quarter of 2004 was 25.89%, while its return on assets was 1.86%, compared to 22.99% and 1.78%, respectively, during the second quarter of 2003.

For the second quarter of 2004, the Company's net interest income increased 26% to \$56.0 million, due primarily to an increase in earning assets during the period, while gain on the origination and sale of loans decreased 8% to \$41.4 million. While the Company's loan production during the 2004 quarter increased 4% to \$1.1 billion compared to 2003, the Company retained an increasing amount of its total production in its loan portfolio, in an effort to continue growing its future net interest income by expanding the volume of loans. For the first half of 2004, the Company's net interest income increased by 29% to \$111.7 million, while gain on the origination and sale of loans increased 4% to \$81.3 million.

Total loan production during the first half of 2004 was \$2.1 billion; total loan production during the second quarter was \$1.1 billion, surpassing the amount for the first quarter this year. In both periods, over 90% of the Company's total loan production continues to be internally generated. The increase in earnings during the first half and second quarter of 2004 also reflects a reduction in servicing related impairment charges (included in operating expenses) of \$21.6 million

and \$20.1 million, respectively. These reductions stem from decreases in mortgage prepayment rates in the Company's loan servicing portfolio during the period.

Total assets of R-G Crown Bank at the end of the second quarter of 2004 were \$1.5 billion, contributing \$11.0 million in profits during the first half of 2004. Total banking assets increased 26% compared to the second quarter of 2003 to \$8.2 billion, which represented 91% of the Company's consolidated assets at June 30, 2004.

Commenting on the significant results for the second quarter and first half of 2004, Mr. Victor J. Galan, Chairman of the Board and CEO of the Company indicated:

"We are pleased to report these excellent results during the quarter ended June 30, 2004. The increase in earnings reflects another strong quarter of loan production, as we continue to benefit from strong loan demand both in Puerto Rico and Central Florida. Our loan portfolio has grown over \$450 million during the first half of 2004, which continues to position R&G very well for the future. As a result of these strong results, together with the continuing strong demand we are experiencing both in commercial and residential lending, we remain optimistic about our future performance."

30. On August 9, 2004, R&G Financial filed its quarterly report with the SEC on Form 10-Q. The Company's Form 10-Q was signed by the Individual Defendants and reaffirmed the Company's previously announced financial results. Additionally, the defendants represented the following:

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. However, in the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (principally consisting of normal recurring accruals) necessary for a fair presentation of the Company's financial condition as of June 30, 2004 and the results of operations and changes in its cash flows for the three months ended June 30, 2004 and 2003.

31. On October 22, 2004, R&G Financial issued a press release with the headline "R&G Financial Reports Record Earnings for Third Quarter and Nine Months Ended September 30, 2004."

Therein, the Company stated:

R&G Financial Corporation (NYSE: RGF) (the "Company"), the financial holding company of R-G Premier Bank, R-G Crown Bank and R&G Mortgage Corp, today reported record earnings for the third quarter and first nine months of 2004.

For the first nine months of 2004, net income amounted to \$120.2 million, compared to \$94.9 million in 2003, an improvement of 27%. For the third quarter of 2004, net income amounted to \$40.9 million, compared to \$34.3 million for the third quarter of 2003, an increase of 19%. For the nine months of 2004, consolidated earnings per diluted share were \$2.11, compared to \$1.62 for 2003, an increase of 30%. For the third quarter of 2004, consolidated earnings per diluted share were \$0.72, compared to \$0.59 per diluted share for the third quarter of 2003, an increase of 22%.

These excellent results were achieved notwithstanding trading losses of \$25.0 million and \$24.0 million during the nine months and quarter ended September 30, 2004, respectively, on derivative instruments held by the Company, including certain derivatives held for risk management purposes.

The Company's return on equity during the third quarter of 2004 was 25.08%, while its return on assets was 1.81%, compared to 24.26% and 1.82%, respectively, during the third quarter of 2003.

For the third quarter of 2004, the Company's net interest income increased 29% to \$61.4 million, due primarily to an increase in earning assets during the period, while gain on sale of loans increased 85% to \$54.5 million. For the first nine months of 2004, the Company's net interest income increased by 29% to \$173.1 million, while gain on sale of loans increased 27% to \$136.9 million.

Total loan production during the first nine months of 2004 was \$3.4 billion. Total loan production during the third quarter was \$1.3 billion, surpassing the amount for the second quarter this year. In both periods, almost 90% of the Company's total loan production continues to be internally generated.

The increase in earnings during the first nine months and third quarter of 2004 also reflects a reduction in servicing-related impairment charges (including in operating expenses) of \$709,000 and \$22.3 million, respectively. These reductions stem from decreases in mortgages prepayment rates in the Company's loan servicing portfolio during the periods.

Total assets of R-G Crown Bank at the end of the third quarter of 2004 were \$1.6 billion, contributing \$18.3 million in profits during the first nine months of 2004. Total banking assets increased 21%, compared to the third quarter of 2003 to \$8.5 billion, which represented 92% of the Company's consolidated assets at September 30, 2004.

Commenting on the significant results for the third quarter and first nine months of 2004, Mr. Victor J. Galan, Chairman of the Board and CEO of the Company, indicated:

"The increase in earnings reflects another strong quarter of loan production as we continue to benefit from strong loan demand both in Puerto Rico and Central Florida, which continues to position R&G very well for the future. As a result of these strong results, together with the continuing strong demand we are experiencing both in commercial and residential lending, we remain optimistic about our future performance."

### **The Truth Begins to Emerge**

32. On November 15, 2004, R&G Financial issued a press release with the headline "R&G Financial Corporation Revises Previously Announced Earnings For September 30, 2004 Quarter." Therein, the Company stated:

R&G Financial Corporation (NYSE: RGF), the financial holding company of R-G Premier Bank, R- G Crown Bank, and R&G Mortgage Corp, today announced that in connection with the filing of its third quarter Form 10-Q, it has revised its earnings for the quarter and nine months ended September 30, 2004 from what was previously announced in its third quarter earnings press release issued on October 22, 2004. As a result of the accounting changes described herein, the Company's consolidated income for the quarter and nine months ended September 30, 2004 will decrease by approximately \$3.9 million or \$0.08 per diluted share for the third quarter of 2004

and \$0.09 per diluted share for the nine months ended September 30, 2004, to \$37.0 million and \$116.3 million, or \$0.64 and \$2.03 per diluted share, respectively. For the quarter and nine months ended September 30, 2004, the Company previously indicated in its earnings release net income of \$40.9 million and \$120.2 million, or \$0.72 and \$2.12 per diluted share, respectively.

The Company previously reported in its earnings release that it had incurred trading losses of \$24.0 million during the three months ended September 30, 2004, on derivative instruments held by the Company, including derivatives held for interest-rate risk management purposes. Specifically, during the quarter ended September 30, 2004, the Company determined that it was appropriate to report losses related to some of its retained beneficial interests resulting from past and ongoing financial asset transfers accounted for as sales as trading derivatives in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Pursuant to SFAS No. 133, such instruments are marked-to-market quarterly, with unrealized gains and losses recorded in the Company's consolidated statements of income. Prior to the September 2004 quarter, the Company had reported all of such retained beneficial interests at fair value as interest-only strips and classified them as available for sale securities, with unrealized marked-to-market gains or losses recorded in other comprehensive income in the Company's consolidated financial statements. As a result of the application of SFAS 133 to such transactions, the Company in its earnings release included a \$14.0 million trading loss on certain of such retained residual interests during the quarter ended September 30, 2004. The Company also previously reported a \$10.0 million loss related to a decrease in the fair value hedge the Company had acquired for interest-rate risk management purposes, which lost value due to the flat yield curve environment in the quarter.

When the Company delayed the filing of its Form 10-Q for the September 2004 quarter, it disclosed that it was reviewing certain information regarding past sale transactions to determine whether the application of SFAS 133 to its residual interests is appropriate to events that occurred during the second and/or third quarter of 2004. The Company has concluded that it is appropriate to reduce by \$2.5 million its trading loss related to its residual interests classified as trading derivatives, for aggregate trading losses of \$21.5 million. In addition, the Company has determined that certain interest-only strips that are classified as available for sale securities were impaired. As such, the Company has recorded a permanent impairment charge



of \$8.8 million in accordance with EITF 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets, which is the primary reason for the change to previously released earnings information.

33. Also on November 15, 2004, R&G Financial filed its quarterly report with the SEC on Form 10-Q. The Company's Form 10-Q was signed by the Individual Defendants and reaffirmed the Company's previously announced financial results. Additionally, the defendants represented the following:

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. However, in the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (principally consisting of normal recurring accruals) necessary for a fair presentation of the Company's financial condition as of September 30, 2004 and the results of operations and changes in its cash flows for the three months ended September 30, 2004 and 2003.

34. On January 24, 2005, R&G issued a press release with the headline "R&G Financial Reports Record Earnings for Fourth Quarter and Year Ended December 31, 2004." Therein, the Company stated:

R&G Financial Corporation (NYSE: RGF) (the "Company"), the financial holding company of R-G Premier Bank, R-G Crown Bank and R&G Mortgage Corp, today reported record earnings for the fourth quarter and year ended December 31, 2004.

For the year ended December 31, 2004, net income amounted to \$160.2 million, compared to \$131.0 million in 2003, an improvement of 22%. For the fourth quarter of 2004, net income amounted to \$43.9 million compared to \$36.1 million for the fourth quarter of 2003, an increase of 22%. For the year ended December 31, 2004, consolidated earnings per diluted share were \$2.81, compared to \$2.25 for 2003, an increase of 25%; for the fourth quarter of 2004, consolidated earnings per diluted share were \$0.78, compared to



\$0.63 per diluted share for the fourth quarter of 2003, an increase of 24%.

These excellent results for the year ended December 31, 2004, were achieved notwithstanding previously reported trading losses of \$18.9 million during the year on derivative instruments held by the Company, including certain derivatives held for risk management purposes.

The Company's return on equity during the year ended December 31, 2004, and the fourth quarter of 2004, was 24.64% and 25.46%, while its return on assets was 1.78% and 1.81%, compared to a return on equity of 23.45% and 24.52% and a return of assets of 1.80% and 1.80% during the year ended December 31, 2003, and the fourth quarter of 2003.

For the year ended December 31, 2004, the Company's net interest income increased by 23% to \$230.9 million, due primarily to an increase in earning assets during the period, while gain on sale of loans increased 19% to \$175.5 million. For the fourth quarter of 2004, the Company's net interest income increased 8% to \$57.8 million, while gain on sale of loans increased 27% to \$49.6 million.

Total loan production during the year ended December 31, 2004 was \$4.8 billion; total loan production during the fourth quarter was \$1.5 billion, surpassing the amount for the third quarter this year. In both the third and fourth quarter, these amounts represent new all-time records for the Company. The amount of loan production for the fourth quarter of 2004 increased 37% compared to the corresponding period in 2003 in spite of higher interest rates in the 2004 period.

The increase in earnings during the year ended December 31, 2004 also reflects a reduction in servicing related impairment charges (included in operating expenses) of \$23.6 million. The reduction stems from decreases in mortgage prepayment rates in the Company's loan servicing portfolio during 2004.

Total assets of R-G Crown Bank increased 46% during the year 2004 to \$1.9 billion, contributing \$14.7 million in profits during 2004. Total banking assets of the Company increased 27% during 2004 to \$9.4 billion, representing 92% of consolidated assets at December 31, 2004.

Commenting on the significant results for the fourth quarter and year ended December 31, 2004, Mr. Victor J. Galan, Chairman of the Board and CEO of the Company, indicated: "We are pleased to report another strong quarter of earning and loans production. We ended 2004 with record assets of \$10.2 billion, resulting from continued strong demand in residential and commercial lending both in Puerto Rico and Central Florida, as evidenced by our \$1.5 billion record loan production during the fourth quarter of 2004. One month from now, we expect to close the transaction with Wachovia Corporation in which we will obtain 18 additional branches in the states of Florida and Georgia. This transaction will strengthen our presence in Central Florida and expand our territory into very important markets for R&G in the future, as we continue our expansion in the Continental United States. Coupled with continued strong loan demand in Puerto Rico, as well as other initiatives, we anticipate strong loan production through 2005 and remain optimistic about our future performance."

35. On March 16, 2005, R&G Financial filed its annual report with the SEC on Form 10-K. The Company's Form 10-K was signed by the Individual Defendants and reaffirmed the Company's previously announced financial results. Additionally, the Company's Form 10-K contained the following clean audit opinion of PricewaterhouseCoopers, LLP:

Consolidated financial statements

In our opinion, the consolidated statements of financial condition and the related consolidated statements of income, of comprehensive income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of R&G Financial Corporation and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting

the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

#### Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing on page 32 of the 2004 Annual Report to Shareholders that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in "Internal Control - Integrated Framework" issued by COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

36. Additionally, the Individual Defendants certified R&G Financial's 2004 financial results pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by affirming the following:

1. I have reviewed this annual report on Form 10-K of R&G Financial Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

37. The statements contained in ¶¶ 18-36 were materially false and misleading when made because defendants failed to disclose or indicate the following: (1) that R&G Financial's earnings quality had been significantly weakened by the Company's use of more aggressive assumptions to generate gain on sale income, as well as to the value it retained in its interest only ("IO") residuals in securitization transactions; (2) that R&G Financial's methodology used to calculate the fair value of its IO residual interests retained in securitization transactions was incorrect and caused the Company to overstate its financial results by at least \$50 million; (3) that the Company's financial statements were not prepared in accordance with Generally Accepted Accounting Principles ("GAAP"); (4) that the Company lacked adequate internal controls and was therefore unable to ascertain the true financial condition of the Company; and (5) that as a result, the value of the Company's net income and financial results were materially overstated at all relevant times.

### **The Truth Emerges**

38. On March 25, 2005, after the market had closed, R&G Financial announced that it would restate its financial results for fiscal years 2003 and 2004. More specifically, the Company stated:

R&G Financial Corporation (NYSE: RGF) ("R&G Financial") announced today that after consultation with its independent accountants and firms with experience in valuation issues, the Company has determined to review the independent market valuations used in valuing residual interests retained in securitization

transactions of the Company. The Company stated that it is revising its valuation methodology used in valuing these interests that are presented in the Company's audited consolidated financial statements. The Company reached this determination after discussions with its independent accountants, which the Company initiated on Tuesday, April 19th and culminated on Friday, April 22nd.

As of December 31, 2004, the Company had reported in its recently-issued audited consolidated financial statements an aggregate of \$190 million of residual interests retained. Under the methodology used to prepare the audited consolidated financial statements, the Company had taken impairment charges on its residual interests amounting to \$20.3 million and \$11.90 million during the third and fourth quarters of 2004, respectively. An additional impairment charge for the first quarter of 2005 of \$30.1 million had been estimated by the Company under the methodology it had been using.

The Company is considering alternative valuation methodologies. Depending on the valuation methodology used, the Company has preliminarily estimated that the fair value of its residual interests would be reduced as of December 31, 2004 by an amount equal to between approximately \$90 million to \$150 million (\$55 million and \$90 million after taxes, respectively). Any such reduction would be a non-cash charge to the Company's consolidated statement of operations. The Company has not yet determined how such net impact will be distributed among the affected periods.

The Company has concluded that previously filed interim and audited financial statements for the periods from January 1, 2003 through December 31, 2004, would be materially affected as a result of the revision in the valuation methodologies being contemplated, and therefore, the financial statements for the periods included therein should be restated. The Company's independent accountants have not yet performed audit procedures on any revised estimates.

As a result of these events, the Company will delay the release of its earnings for the first quarter of 2005. The Company intends to release its unaudited earnings for the first quarter of 2005 and the restated results for prior periods as soon as practicable. As part of this process, the Company will be reviewing the management report on internal control over financial reporting for 2004. The Company has also retained Sullivan & Cromwell LLP as its special counsel to

advise the Company on legal issues arising from the valuation of its residual interests retained on securitization transactions.

Assuming a reduction in the value of its residual interests of \$150 million, the Company will remain a well-capitalized institution in accordance with federal banking regulatory standards, with a leverage ratio as of December 31, 2004 of approximately 10.44%, compared to the previously reported 11.29%. Its banking subsidiaries are also expected to remain well-capitalized.

39. News of this shocked the market. Shares of R&G Financial, on April 26, 2005, fell \$8.14 per share, or 35.12 percent, to close at \$15.04, on unusually heaving trading volume.

40. After the market closed on April 26, 2005, R&G Financial issued a press release wherein it announced that it was subject to an informal SEC probe relating to the announcement contained in ¶ 36.

**R&G FINANCIAL'S VIOLATION OF GAAP RULES IN ITS  
QUARTERLY AND ANNUAL REPORTS FILED WITH THE SEC**

41. In order to overstate its earnings during the Class Period, R&G Financial violated GAAP and SEC rules during the Class Period.

42. These financial statements and the statements about them were false and misleading, as such financial information was not prepared in conformity with GAAP, nor was the financial information a fair presentation of the Company's operations due to the Company's improper accounting for and disclosure about its revenues, in violation of GAAP and SEC rules. R&G Financial manipulated financial statements by allowing the Company to overstate its revenues by reporting revenues generated in the United States as if it were earned in a foreign division, thereby lowering the Company's tax rate, which artificially inflated R&G Financial's revenue and income.

43. GAAP are those principles recognized by the accounting profession as the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. Regulation S-X (17 C.F.R. §210.4-01(a)(1)) states that financial statements filed with the SEC which are not prepared in compliance with GAAP are presumed to be misleading and inaccurate. Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosure which would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. §210.10-01(a).

44. Given these accounting irregularities, the Company announced financial results that were in violation of GAAP and the following principles:

- (a) The principle that “interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements” was violated (APB No. 28, ¶10);
- (b) The principle that “financial reporting should provide information that is useful to present to potential investors and creditors and other users in making rational investment, credit, and similar decisions” was violated (FASB Statement of Concepts No. 1, ¶34);
- (c) The principle that “financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events, and circumstances that change resources and claims to those resources” was violated (FASB Statement of Concepts No. 1, ¶40);



- (d) The principle that “financial reporting should provide information about an enterprise’s financial performance during a period” was violated (FASB Statement of Concepts No. 1, ¶42);
- (e) The principle that “completeness, meaning that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions” was violated (FASB Statement of Concepts No. 2, ¶79);
- (f) The principle that “financial reporting should be reliable in that it represents what it purports to represent” was violated (FASB Statement of Concepts No. 2, ¶¶58-59); and
- (g) The principle that “conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered” was violated. (FASB Statement of Concepts No. 2, ¶95).

45. The adverse information concealed by defendants during the Class Period and detailed above was in violation of Item 303 of Regulation S-K under the federal securities law (17 C.F.R. 229.303).

#### **UNDISCLOSED ADVERSE INFORMATION**

46. The market for R&G Financial’s common stock was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, R&G Financial’s common stock traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired R&G Financial common stock relying upon the integrity of the market price of R&G Financial’s common stock and market information relating to R&G Financial, and have been damaged thereby.

47. During the Class Period, defendants materially misled the investing public, thereby inflating the price of R&G Financial's common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

48. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by plaintiff and other members of the Class. As described herein, during the Class Period, defendants made or caused to be made a series of materially false or misleading statements about R&G Financial's business, prospects and operations. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of R&G Financial and its business, prospects and operations, thus causing the Company's common stock to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in plaintiff and other members of the Class purchasing the Company's common stock at artificially inflated prices, thus causing the damages complained of herein.

#### **ADDITIONAL SCIENTER ALLEGATIONS**

49. As alleged herein, defendants acted with scienter in that defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in

the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of information reflecting the true facts regarding R&G Financial, their control over, and/or receipt and/or modification of R&G Financial's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning R&G Financial, participated in the fraudulent scheme alleged herein.

50. Defendants knew and/or recklessly disregarded the falsity and misleading nature of the information which they caused to be disseminated to the investing public. The ongoing fraudulent scheme described in this complaint could not have been perpetrated over a substantial period of time, as has occurred, without the knowledge and complicity of the personnel at the highest level of the Company, including the Individual Defendants.

**Applicability Of Presumption Of Reliance:  
Fraud-On-The-Market Doctrine**

51. At all relevant times, the market for R&G Financial's common stock was an efficient market for the following reasons, among others:

(a) R&G Financial's stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;

(b) As a regulated issuer, R&G Financial filed periodic public reports with the SEC and the NYSE;

(c) R&G Financial regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) R&G Financial was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

52. As a result of the foregoing, the market for R&G Financial's common stock promptly digested current information regarding R&G Financial from all publicly available sources and reflected such information in R&G Financial's stock price. Under these circumstances, all purchasers of R&G Financial's common stock during the Class Period suffered similar injury through their purchase of R&G Financial's common stock at artificially inflated prices and a presumption of reliance applies.

#### **NO SAFE HARBOR**

53. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of R&G Financial who knew that those statements were false when made.

**FIRST CLAIM**  
**Violation Of Section 10(b) Of**  
**The Exchange Act Against And Rule 10b-5**  
**Promulgated Thereunder Against All Defendants**

54. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

55. During the Class Period, defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (1) deceive the investing public, including plaintiff and other Class members, as alleged herein; and (2) cause plaintiff and other members of the Class to purchase R&G Financial's common stock at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

56. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's common stock in an effort to maintain artificially high market prices for R&G Financial's common stock in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

57. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of R&G Financial as specified herein.

58. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of R&G Financial's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about R&G Financial and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of R&G Financial common stock during the Class Period.

59. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (1) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (2) each of these defendants, by virtue of his responsibilities and activities as a senior officer and/or director of the Company was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (3) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of and had access to other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (4) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

60. The defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing R&G Financial's operating condition and future business prospects from the investing public and supporting the artificially inflated price of its common stock. As demonstrated by defendants' overstatements and misstatements of the Company's business, operations and earnings throughout the Class Period, defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

61. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of R&G Financial's common stock was artificially inflated during the Class Period. In ignorance of the fact that market prices of R&G Financial's publicly-traded common stock were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of the market in which the common stock trades, and/or on the absence of material adverse information that was known to or recklessly disregarded by defendants but not disclosed in public statements by defendants during the Class Period, plaintiff and the other members of the Class acquired R&G Financial common stock during the Class Period at artificially high prices and were damaged thereby.

62. At the time of said misrepresentations and omissions, plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had plaintiff and the other members of the Class and the marketplace known the truth regarding R&G Financial's financial results, which were not disclosed by defendants, plaintiff and other members of the Class would not have purchased or otherwise acquired their R&G Financial common stock, or, if they had acquired such common stock during the Class Period, they would not have done so at the artificially inflated prices which they paid.

63. By virtue of the foregoing, defendants have violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

64. As a direct and proximate result of defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's common stock during the Class Period.

## **SECOND CLAIM**

### **Violation Of Section 20(a) Of The Exchange Act Against the Individual Defendants**

65. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

66. The Individual Defendants acted as controlling persons of R&G Financial within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-



making of the Company, including the content and dissemination of the various statements which plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

67. In particular, each of these defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

68. As set forth above, R&G Financial and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of defendants' wrongful conduct, plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's common stock during the Class Period.

**WHEREFORE**, plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action, designating plaintiff as Lead Plaintiff and certifying plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and plaintiff's counsel as Lead Counsel;

(b) Awarding compensatory damages in favor of plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

**JURY TRIAL DEMANDED**

Plaintiff hereby demands a trial by jury.

Dated: April 27, 2005

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